Telecommunication Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers comprehensive assessments on the company’s presence and domination in the market, which can be reflected by the company’s business size as well as its market share in each business segment through numbers of subscribers, numbers of traffic or connection times, and pulse production. A company with significant business size and market share tend to have stronger resistance against any unfavorable business environment, better bargaining position to negotiate with the vendors, distributors, regulators, as well as better flexibility to adjust selling prices due to its strong brand equity. The company’s capability to enlarge the customer base is in line with the capacity to enhance the network coverage, which often requires a sizable investment cost. Therefore, market position of a cellular company is usually dependent on the financial capacity to support the capital expenditures.

Operating Management
The analysis includes careful examinations on the company’s management quality by evaluating business strategy to anticipate the rapid growth of technology, global trends and changes in regulations, as well as the ability to generate efficient business activities. These can be indicated by growth of its profitability margins from each business segment, average revenue per user (ARPU), revenue per employee, and tariffs setting for each services. A company with a clear vision and business strategy will be able to quickly adapt to the most recent business development and have the capability to provide products that will receive strong enthusiasm from the market. By being the pioneer in providing such new and innovative products, the company will also have advantage to capture more market opportunity and have relatively stronger price position, which eventually can generate substantial margins to cover the costs of investment, research, and development. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company’s ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company’s competitiveness. The analysis is helpful to measure operating efficiency.

Diversification
The analysis covers comprehensive reviews on the company’s ability to evenly diversify its revenue generation, based on the types of businesses or services provided, market segment, and areas, including revenue from overseas market. The capability to create products differentiation as well as disperse revenue from various market segments and geographical areas will not only ensure the stability of the company’s revenue stream, but also will provide stronger cushion against any particular business downturn.

Quality of Services
The analysis includes detailed evaluations on the company’s ability to provide satisfactory services to the customers, which can be reflected by its network coverage areas, line exchange capacity, technology used for the services which will determine the connection quality, numbers and accessibility of its customers services supports, as well as other operational indicators such as level of churn rates, successful connection ratios, and track record of any major disruption. By providing excellent quality of services, the company should be able to continuously increase its subscribers’ base, which in turn should improve its business productivity.
FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection and Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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